

**VINTON MUNICIPAL ELECTRIC UTILITY**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2016**

# Vinton Municipal Electric Utility

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# VINTON MUNICIPAL ELECTRIC UTILITY

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Alan Woodhouse	Chairperson	December 2021
Jon Kremer	Trustee	December 2017
Michael Barron	Trustee	December 2016
Michael Elwick	Trustee	December 2019
John Anderson	Trustee	December 2020
Tom Richtsmeier	General Manager	Indefinite
Cindy Michael	Secretary	Indefinite

# **RFSW** Ridihalgh Fuelling Snitker Weber & Co.

C E R T I F I E D   P U B L I C   A C C O U N T A N T S

*James R. Ridihalgh, CPA  
Gene L. Fuelling, CPA  
Donald A. Snitker, CPA  
Donald A. Weber, CPA*

*Jeremy P. Lockard, CPA  
Alan W. Flick, CPA  
Brent A. Waters, CPA*

## Independent Auditor's Report

To the Board of Trustees  
Vinton Municipal Electric Utility  
Vinton, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Vinton Municipal Electric Utility (a municipal utility), a component unit of the City of Vinton, Iowa, as of and for the year ended June 30, 2016, and the related Notes to the Financial Statements, which collectively comprise the Utility's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the



financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of Vinton Municipal Electric Utility as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### Other Matters

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability, and the Schedule of Utility Contributions on pages 7 through 10 and pages 31 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vinton Municipal Electric Utility's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in the Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures,

including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2016 on our consideration of Vinton Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Vinton Municipal Electric Utility's internal control over financial reporting and compliance.

*Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.*

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO. P.C., C.P.A.'S

December 6, 2016



## **Vinton Municipal Electric Utility Management's Discussion and Analysis**

The Vinton Municipal Electric Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the Electric Utility's financial statements, which follow.

### **Fiscal 2016 Financial Highlights**

The Utility's operating revenue increased by 3.6%, or \$155,198, from fiscal 2015 to fiscal 2016

The Utility's operating expenses increased by .8%, or \$30,732, from fiscal year 2015 to fiscal year 2016.

The Utility's net assets increased 4%, or \$468,066, from June 30, 2015 to June 30, 2016.

In July 2015, construction of the new back-up transformer concrete pad and oil pit was completed at a cost of \$22,005.

In August 2015, RPGI approved a policy capping Operating Reserves at \$5 million. This policy also detailed the process that would be taken regarding the timing, calculation, and distribution of any excess funds.

In October 2015, additional radio read Itron meters were purchase at a cost of \$16,949.

In December 2015, the Utility Board offered the General Manager position to Tom Richtsmeier, which he accepted.

In January 2016, the Utility Board approved the proposed budget for fiscal year 2016-2017.

In March 2016, the City of Vinton was notified about pending litigation between Josiah Brewer and Mediacom Communications and other defendants. EMC Insurance Companies (EMC) hired Pickens, Barnes & Abernathy to defend claims brought against the City of Vinton. RPGI's Board declared a distribution of excess operating reserves to qualifying members. VMEU's portion is \$37,749.43 and will be divided into 12 monthly payments beginning with March 2016 purchased power invoice.

In April 2016, the generation crew and Farabee Mechanical Inc. completed the performance compliance demonstration and emission testing required by RICE NESHP regulations. Testing is required every three years with this cycle test completed at a cost of \$14,978.

In May 2016, the new back-up substation switchgear building project began to show significant progress with the concrete floor/pad being installed at a cost of \$35,203. A used genie lift was purchased for the generation plant at a cost of \$2,850. Two loads of southern

pine poles were purchased for \$22,779. A new software upgrade for the SCADA system was purchased at a cost of \$16,625.

In June of 2016, 11,300 gallons of fuel oil was purchased at a cost of \$11,826.

Under budgetary highlights:

Actual cash disbursements were approximately 25% below budgeted figures. Some of the significant factors resulting in the below budget disbursements were:

Wholesale power costs were approximately 14% below budget.

Fuel oil and natural gas costs combined were approximately 48% below budget.

Administrative salaries were approximately 42% below budget.

Generation Auxiliaries were approximately 60% under budget.

## **Overview of the Financial Statements**

Management's Discussion and Analysis is intended to serve as an introduction to the Utility's basic financial statements.

The Statement of Net Position presents the value of all of the Utility's assets and liabilities by liquidity, with the difference between the two presented as net position. The Utility's net position represents to what extent the Utility's assets exceed its liabilities, with further breakout showing the value of assets invested in capital assets used in providing services to the Utility's customers.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information detailing how the Utility's net position changed during the year. The statement is divided between operating activities—providing electricity to the Utility's customers—and non-operating activities which fall outside of the definition of operating activities. Changes in net position are reported as soon as the underlying event causing the change occurs, regardless of the timing of the related cash flows. Therefore, revenue and expenses are reported in this statement for some transactions that will result in cash flows in subsequent years.

The Statement of Cash Flows presents information detailing the major sources and uses of cash separated out by activity. This statement also includes a reconciliation of net operating income to net cash provided by operating activities.

The Notes to the Financial Statements provide additional information that is essential to the understanding of the data provided in the basic financial statements.

The Supplementary Information provides a more detailed listing of the Utility's operating expenses for the year and should be viewed in conjunction with the Statement of Revenues, Expenses and Changes in Fund Net Position.

## Financial Analysis

Net Position may serve over time as a useful indicator of financial position. The following is a summary of the composition of net assets at June 30:

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 7,205,263	6,504,386
Noncurrent, noncapital assets	375,983	416,070
Capital Assets, net of depreciation	<u>5,118,035</u>	<u>5,334,142</u>
Total Assets	<u>11,940,335</u>	<u>11,246,293</u>
Deferred Outflows of Resources	<u>57,348</u>	<u>60,101</u>
Total Assets and Deferred Outflows	\$ <u>12,756,629</u>	<u>12,314,699</u>
Current Liabilities	<u>617,093</u>	<u>610,800</u>
Noncurrent Liabilities	<u>33,892</u>	<u>52,378</u>
Deferred Inflows of Resources	<u>69,454</u>	<u>83,397</u>
Net Position:		
Invested in capital assets	5,118,035	5,334,142
Unrestricted	<u>6,918,155</u>	<u>6,233,982</u>
Total Liabilities and Net Position	<u>\$12,756,629</u>	<u>12,314,699</u>

The Utility's net position increased by \$468,066, or 4%, during fiscal 2016. The largest portion of the Utility's net position consists of unrestricted funds, which may be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements. The remaining net position consisted of investments in capital assets (e.g. land, buildings and improvements, equipment, and construction in progress), net of accumulated depreciation costs, which made up 40% of the total net position.

The following is a summary of the changes in net assets for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Operating Revenue	\$ 4,520,979	4,365,781
Operating Expenses	<u>4,098,585</u>	<u>4,067,853</u>
Operating Income (Loss)	422,394	297,928
Net non-operating revenue (expense)	<u>45,672</u>	<u>104,912</u>
Change in Net Position	468,066	402,840
Net Position at Beginning of Year	<u>11,568,124</u>	<u>11,165,124</u>
Net Position at End of Year	<u>\$ 12,036,190</u>	<u>11,568,124</u>



## **Budgetary Highlights**

The Utility prepared and adopted the annual budget which designated the amounts necessary for the improvement and maintenance of the Utility. This budget uses a modified cash basis of accounting which differs from the accrual basis of accounting used to prepare the accompanying financial statements. The budget information is provided to the City of Vinton and is included along with the City's budget for certification and publication. The Utility's original budget was not amended during either of the years ended June 30, 2016 or 2015. The Utility did not exceed its budgeted expenditures in either of the years ended June 30, 2016 or 2015.

The Utility's actual operating revenues were \$4,520,979 or 1%, less than budgeted.

The Utility's actual operating disbursements were \$4,098,585, or 16%, less than budgeted.

The Utility continues to make ongoing improvements on aged distribution circuits in town. This work is done to maintain and strengthen the Utility's infrastructure.

## **Economic Factors and Next Year's Budget and Rates**

The Utility's primary source of revenue is electricity sales. Due to increasing costs of purchasing electricity and fuels to produce electricity, fuel cost adjustments are added to billing rates. Budgeted revenue has been adjusted to reflect the increase in rates.

Thru RPGI the Utility leverages its ability to get and keep economic rates. This may become more challenging as additional coal fueled plants are retired due to increased EPA regulations.

Operating expenses for 2017 are expected to increase modestly over the same expenditures in 2016 due to increases in pay rates and energy purchases.

## **Contacting the Utility's Financial Management**

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Tom Richtsmeier, general manager, 214 E. 2<sup>nd</sup> St., Vinton, Iowa 52349 or Cindy Michael, Secretary, P.O. Box 529, Vinton, IA 52349.



## **Basic Financial Statements**

Vinton Municipal Electric Utility  
Statement of Net Position  
June 30, 2016

ASSETS:	2016
Current Assets:	
Cash and cash equivalents	\$ 5,753,556
Receivables:	
Trade accounts, net allowance for uncollectibles	246,616
Unbilled revenues	313,355
City of Vinton	13,215
Current portion of notes	42,061
Prepaid expenses	86,309
Inventory	750,151
Total Current Assets	<u>7,205,263</u>
Noncurrent Assets:	
Notes receivable	299,286
Investment in joint venture	76,697
Capital Assets, net accumulated depreciation	5,118,035
Total Noncurrent Assets	<u>5,494,018</u>
 TOTAL ASSETS	 <u>12,699,281</u>
 DEFERRED OUTFLOWS of RESOURCES	
Pension related deferred outflows	<u>57,348</u>
 <b>TOTAL ASSETS and DEFERRED OUTFLOWS</b>	 <u><u>\$ 12,756,629</u></u>
 LIABILITIES:	
Current Liabilities:	
Accrued Payroll	18,599
Accounts Payable	238,093
Accrued sales and use tax	-
Accrued compensated absences	43,635
Accrued pension	298,280
Current portion of legal settlement	18,486
Total Current Liabilities	<u>617,093</u>
Noncurrent Liabilities:	
Noncurrent portion of legal settlement	<u>33,892</u>
 TOTAL LIABILITIES	 <u>650,985</u>
 DEFERRED INFLOWS OF RESOURCES:	
Pension related deferred inflows	<u>69,454</u>
 NET POSITION:	
Invested in capital assets	5,118,035
Unrestricted	6,918,155
Total Net Position	<u>12,036,190</u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS and NET POSITION</b>	 <u><u>\$ 12,756,629</u></u>

See notes to the financial statements

Vinton Municipal Electric Utility  
Statement of Revenues, Expenses  
and Changes in Fund Net Position  
Year Ended June 30, 2016

	<u>2016</u>
Operating Revenues:	
Charges for services	\$ 4,265,314
Sales and services to City of Vinton	156,442
Miscellaneous operating revenue	99,223
Total Operating Revenue	<u>4,520,979</u>
Operating expenses:	
Generation	2,707,277
Distribution	487,871
Customer account	27,195
Administration and general	495,569
Benefits to community and city	92,406
Depreciation and amortization	288,267
Total Operating Expenses	<u>4,098,585</u>
Operating Income	<u>422,394</u>
Non-Operating Revenues (Expenses):	
Interest income	17,206
Other income	28,466
Total Non-Operating Revenues (Expenses)	<u>45,672</u>
Changes in Net Position	468,066
Net Position, beginning of year	<u>11,568,124</u>
Net Position, end of year	<u><u>\$ 12,036,190</u></u>

See notes to the financial statements

Vinton Municipal Electric Utility  
Statement of Cash Flows  
Year Ended June 30, 2016

	<u>2016</u>
Cash flows from operating activities:	
Cash received from customers and users	\$ 4,178,591
Cash received from primary government	139,650
Cash paid for services	(844,547)
Cash paid to suppliers	(2,773,978)
Cash paid to primary government	(197,968)
Net cash provided by operating activities	<u>501,748</u>
Cash flows from noncapital financing activities:	
Cash received for nonoperating revenues	28,464
Cash paid for nonoperating expenses	(18,486)
Net cash provided by noncapital financing activities	<u>9,978</u>
Cash flows from capital financing activities:	
Acquisitions of capital assets	(72,160)
Net cash used by capital financing activities	<u>(72,160)</u>
Cash flows from investing activities:	
Collections on notes from City of Vinton	138,114
Interest on investments	17,206
Net cash provided by investing activities:	<u>155,320</u>
Net increase in cash and cash equivalents	594,886
Cash and cash equivalents beginning of year	<u>5,158,670</u>
Cash and cash equivalents end of year	<u><u>\$ 5,753,556</u></u>

See notes to the financial statements

Vinton Municipal Electric Utility  
Statement of Cash Flows  
Year Ended June 30, 2016

	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$422,393
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	288,267
(Increase) decrease in:	
Accounts receivable	13,663
Unbilled revenues receivable	(187,278)
Inventory	(19,735)
Prepaid expenses	(10,667)
Other assets	2,753
Increase (decrease) in:	
Accounts payable	(26,812)
Accrued wages payable	7,212
Accrued vacation, comp and sick pay	(53,709)
Other accrued expenses	<u>65,661</u>
Net cash provided by operating activities	<u><u>\$501,748</u></u>

See notes to the financial statements



Vinton Municipal Electric Utility  
Notes to the Financial Statements  
June 30, 2016

**(1) Summary of Significant Accounting Policies**

The Vinton Municipal Electric Utility (Utility) is a subdivision of the City of Vinton (City), which is a political subdivision of the State of Iowa. The Utility is considered a component unit of the City under Governmental Accounting Standards Board Statement No. 61. The Utility is a public utility responsible for most of the electrical services to the citizens of the City of Vinton, Iowa.

The Utility's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity:**

For financial reporting purposes, the Utility has included all funds. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board sets forth criteria to be considered in determining if the Utility is a component unit of the City of Vinton. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis and the Utility is governed by a separate Board of Trustees which is appointed by the Mayor subject to the approval of the City Council. The financial statements are the Enterprise Fund of Vinton Municipal Electric Utility which is a component unit of the City of Vinton.

**B. Basis of Presentation:**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information on all of the non-fiduciary activities of the Utility.

The Statement of Net Position presents the Utility's non-fiduciary assets, deferred outflow of resources, liabilities, and the deferred inflow of resources, with the difference reported as net position. Net position is reported in the following categories:

*Net Investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.



*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Utility's policy to use unrestricted resources first.

The Utility reports only one fund, the Electric Utility Fund which is used to account for the generation, distribution, and maintenance of the electric utility.

C. Measurement Focus and Basis of Accounting:

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Utility maintains its financial records on the cash basis. The financial statements of the Utility are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Assets:

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of deposits into money market accounts.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Accounts Receivable and Unbilled Revenue – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual customer balances. Unbilled revenue is for the service consumed between periodic scheduled billing dates and is estimated and recognized as revenue in the period in which the service is provided.

Inventories – Inventories are valued at cost using the average cost method. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets, are reported on the Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. If items of property are sold, retired, or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts, and any gain or losses thereon are reflected in the Statements of Revenues, Expenses and Changes in Fund Net Position.

The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years:

Asset Class	Amount
Land, buildings and improvements	\$ 25,000
Equipment and vehicles	5,000
Infrastructure	30,000
Intangibles	50,000

Capital assets of the Utility are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings and improvements	20-50
Jacket radiator equipment	25
Transportation equipment	5-10
Plant tools and equipment	10-25
Generation equipment	10-50
Distribution system	25-40
Office equipment	3-10



Deferred Outflows of Resources-Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Utility after the measurement date but before the end of the Utility's reporting period.

Pensions-For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources- Deferred inflows of resources represent an acquisition of net position that applicable to future periods which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the proprietary fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

## **(2) Cash and Investments**

The Utility's deposits in banks at June 30, 2016 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

### (3) Notes Receivable

On June 1, 2007, the Utility loaned \$62,098 to the City. The note bears interest at 4%, is unsecured and is payable in semi-annual payments of \$3,798 (includes interest). Final payment is due June 1, 2017. The balance outstanding on the note at June 30, 2016 was \$7,374.

On July 8, 2010, the Utility loaned \$330,000 to the City. The note bears interest at 2.5% and is payable in annual payments of \$33,000 plus interest each year beginning in June, 2011. Final payment is due in June, 2020. The balance outstanding on the note at June 30, 2016 was \$132,000.

During fiscal year ended June 30, 2015 the Utility loaned \$300,000 to the City. The note bears interest of 2%, is unsecured and is payable in annual payments of \$100,000 plus interest each year. Balance outstanding at June 30, 2016 was \$201,974.

### (4) Unbilled Revenues Receivable

Unbilled revenues receivable consist of electric meter usage that was billed in July 2016 for usage during fiscal year ended June 30, 2016. The balance at June 30, 2016 was \$313,355.

### (5) Inventories

Inventory is stated at the lower of cost or market. At June 30, inventories consisted of the following:

	<u>2016</u>
Fuel oil	\$ 51,389
Lube oil	1,383
Distribution	209,972
Generation	<u>500,118</u>
	<u>\$ 750,151</u>

### (6) Capital Assets

	<u>2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>2016</u>
<u>Capital Assets Not Being Depreciated</u>				
Land	\$ 454,817	-	-	454,817
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets Not Being Depreciated	<u>454,817</u>	<u>-</u>	<u>-</u>	<u>454,817</u>
<u>Capital Assets Being Depreciated</u>				
Buildings & Improvements	925,506	-	-	925,506
Jacket radiator equipment	114,284	-	-	114,284

Transportation equipment	454,469	-	-	454,469
Plant tools & equipment	521,034	-	-	521,034
Generation equipment	6,106,903	72,160	-	6,179,063
Distribution system	5,104,000	-	-	5,104,000
Office equipment	30,778	-	-	30,778
<hr/>				
Total Capital Assets Being Depreciated	13,256,974	72,160	-	13,329,134
Less Accumulated Depreciation	8,377,648	288,267	-	8,665,915
<hr/>				
Net Capital Assets Being Depreciated	4,879,326	(216,107)	-	4,663,218
<hr/>				
Net Capital Assets	\$5,334,142	(216,107)	-	5,118,035
<hr/>				

## (7) Compensated Absences

The Utility's employees accumulate vacation days during the year based on the anniversary of their employment. At June 30, 2016, \$31,820 was accrued for unused vacation days. Vacation time may only be carried forward from year to year with prior approval of management.

The Utility's full-time employees accrue sick leave at a rate of 8 hours per month. Upon retirement, permanent disability or death, an employee will be paid fifty percent of his or her accumulated sick leave, up to a maximum of 480 hours. No liability as of June 30, 2016.

The Utility has a compensatory time policy allowing for the banking of overtime worked up to 120 hours. Compensatory time may be used up to one year from the time earned; any time not used within one year is converted to paid overtime. Upon retirement, permanent disability, or death, an employee will be paid for any unused compensatory time up to 40 hours. At June 30, 2016 \$7,483 was accrued for unused compensatory time.

## (8) Joint Venture

The Utility is a member of Resale Power Group of Iowa (RPGI), a joint and cooperative undertaking under the provisions of Chapter 28E of the Code of Iowa. RPGI is administered by the Iowa Association of Municipal Utilities and was organized to provide members with combined bargaining power in negotiating wholesale power contracts and a method of investing in the construction of power lines. This joint venture is accounted for under the cost method based on its initial share of RPGI start up costs. RPGI issues separate, audited, financial statements which are available upon request.

## (9) Pension Plan

Plan Description-IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with



pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees Retirement System (IPERS). IPERS issues a stand alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits-A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The members highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits- A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies during retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions-Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and



Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Utility contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Utility’s contributions to IPERS for the year ended June 30, 2016 were \$ 50,073.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2016, the Utility reported a liability of \$298,280 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility’s proportion of the net pension liability was based on the Utility’s share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utility’s proportion was 0.000059999%, which was an increase of 0.00004554% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the Utility recognized pension expense of \$50,073. At June 30, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	7,416
Change in assumptions	-	8,257
Net difference between projected and actual earnings on pension investments	-	89,425
Changes in proportion and differences between Utility contributions and proportionate share of contributions	29,188	-

Utility contributions subsequent  
to the measurement date

50,073	-
<u>\$ 79,261</u>	<u>105,098</u>

The \$50,073 reported as deferred outflows related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pensions will be recognized in pension expense as follows:

Year ended June 30,

2017	(\$7,694)
2018	(7,694)
2019	(7,694)
2020	11,919
2021	<u>(160)</u>
	<u>\$ (11,323)</u>

There are no non-employer contributing entities at IPERS.

Actuarial Assumptions-The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation  (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase  (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return  (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation
Wage growth  (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major

asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:  
Long-Term Expected

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Real Rate of Return</u>
Core plus fixed income	23%	2.04%
Domestic equity	15	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	<u>1</u>	(0.71)
Total	<u>100%</u>	

Discount Rate-The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.5%) or 1% higher (8.5%) than the current rate.

	1% Decrease <u>6.5%</u>	Discount Rate <u>7.5%</u>	1% Increase <u>8.5%</u>
Utility's proportionate share of the net pension liability	\$ 521,214	\$ 283,136	\$ 109,246

The above numbers represents the estimated amount of the total Utility's share.



IPERS' Fiduciary Net Position-Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPER'S website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan-At June 30, 2016, the Utility reported no payables to the defined benefit pension plan for legally required employer contributions and none for legally required employer contributions which had been withheld from employee wages but not yet remitted to IPERS.

#### **(10) Other Postemployment Benefits (OPEB)**

Funding Policy – The contribution requirements of plan members as set forth in the Agreement between the City of Vinton and Local Union No. 55, International Brotherhood of Electrical Worker, states that the Utility will pay \$925 per month per employee of the LINECO insurance premium which covers medical, dental, and health.

Tom Richtmeier, Utility general manager, has the same dollar amount per month, but is under the City Policy rather than LINECO.

Tom Richtsmeier, Utility general manager, is also covered under the City's medical/prescription drug benefits fully-insured plan with Wellmark. Retirees under 65 would pay the same premium for the medical/prescription drug benefits as active employees.

#### **(11) Related Party Transactions**

The Utility provides electrical service to the City of Vinton and bills the City for that usage. The City provides meter reading, administration and accounting services to the Utility. The Utility pays one-half the salary of the Meter Reader and City Clerk, and contributes funds to cover the costs of employing one full time office employee at the City. As disclosed in Note 3, the Utility also had loans outstanding to the City during the year ended June 30, 2016.

Transactions with the City and balances at year end are as follows:

	<u>2016</u>
Amounts billed to the City for electrical service	\$156,442
Amounts received from the City for services	157,398
Receivable from the City at year end for electric services	13,233
Amounts received from the City for loan repayments	40,087
Amounts received from the City for Interest on loans	10,427
Note balance at year end	341,348
Payments made to the City for services received	59,500
Payments to the City in-lieu of taxes	84,000

For payroll reporting purposes, Utility employees are classified as City employees. Payroll costs are transferred by the Utility to the City's bank account for payment to, or on behalf of, the employees.

Commercial insurance coverage is combined between the Utility and the City. The Utility pays its share of the premium directly to the insurer.

The Utility purchases electricity for resale from RPGI. Transactions with RPGI and balances at year end are as follows:

	<u>2016</u>
Electricity purchased	\$2,287,801
Cash payments to RPGI	2,287,856
Amounts due to RPGI	226,560

## **(12) RPGI Settlement**

May 2014 the Utility began making monthly payments of \$1,540.55 to CIPCO as a result of CIPCO lawsuit against RPGI, of which Vinton Municipal Electric Utility is one of twenty members. The lawsuit settlement was \$166,000 and Vinton Municipal Electric Utility's portion was \$18,486.56 and was to be paid at \$1,540.55 over sixty months. Utility's balance owed at June 30, 2016 was \$52,378.

## **(13) Budgeting**

The Utility is required to prepare a budget each year and submit it to the City of Vinton for approval by the council. The City combines the Utility's budget with other proprietary activities in the total City budget which is submitted to the State of Iowa. The Utility prepares its budget using the cash basis of accounting. The Utility's budget to actual (cash basis) comparison for the year ended June 30, 2016 is as follows:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenues	\$ 4,566,,654	4,892,669	(326,015)
Expenditures	(4,098,585)	(5,392,025)	1,336,082

See Budget to GAAP Reconciliation for reconciliation from cash to accrual.

## **(14) Commitments**

The Utility has contracted to purchase its electric power and energy requirements from RPGI. Original agreement is dated January 1, 2004 and is renewed in five year terms. The Utility is now contracted through December 31, 2019. This agreement can be terminated during a five year contract agreement period, but requires two year notice. Costs are dependent upon usage.

## **(15) Risk Management**

The utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except for distribution property and equipment, these risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility has retained the risk of damage to and destruction of most distribution property and equipment. There were no material estimated liabilities or claims paid during the past fiscal year.

The Vinton Municipal Electric Utility is a member of the Iowa Municipalities Worker's Compensation Association (IMWCA). The IMWCA is a local government risk-sharing pool whose members include various governmental entities throughout the State of Iowa. The IMWCA provides coverage and protection for workers' compensation. There were no reduction insurance coverage from prior years during the year ended June 30, 2016.

Member premiums paid to the IMWCA are based on the rates approved annually by the Iowa Insurance Commissioner and fund all administrative expenses, claims, claims expenses, and discounts or surcharges to each member's premium based on its past loss experience. These discounts or surcharges are in addition to each member's experience modification factor. The membership agreement includes the provision that each member will be responsible for its prorated share of any workers' compensation or related employer liability claims which exceed the IMWCA's resources available to pay such claims. Members have never been assessed by the IMWCA and the IMWCA fund balance is in excess of all expenses funded by premiums as well as reserves for future known and unknown claims.

As of July 1, 2016 the City, including the Utility, has gone with Liberty Mutual for Workman's Compensation insurance.

#### **(16) Subsequent Events**

No subsequent events were noted that we feel needed to be noted. Subsequent events were considered by the Utility through December 6, 2016.

#### **(17) Litigation**

The Utility has been named along with two other parties in a lawsuit filed in Iowa District Court. Outside party's insurance company is paying attorney bills and is expected to pay any damages if plaintiff were to win. Utility has liability insurance if necessary.



## **Required Supplementary Information**

Vinton Municipal Electric Utility  
 Budgetary Comparison Schedule  
 Comparison of Revenues and Expenses-Actual to Budget  
 Year Ended June 30, 2016

	<u>Actual</u>	<u>Budget</u>
Operating Revenues:		
Charges for services	\$ 4,265,314	4,768,419
Sales and services to City of Vinton	156,442	-
Miscellaneous operating revenue	99,223	124,250
Total Operating Revenue	<u>4,520,979</u>	<u>4,892,669</u>
Operating expenses:		
Generation	2,707,277	3,357,738
Distribution	487,871	771,846
Customer account	27,195	39,500
Administration and general	495,569	528,241
Benefits to community and city	92,406	194,700
Depreciation and amortization	288,267	-
Total Operating Expenses	<u>4,098,585</u>	<u>4,892,025</u>
Operating Income	<u>422,394</u>	<u>644</u>
Non-Operating Revenues (Expenses):		
Interest income	17,206	17,206
Other income	28,466	-
Contingency	-	(500,000)
Total Non-Operating Revenues (Expenses)	<u>45,672</u>	<u>(482,794)</u>
Changes in Net Position	468,066	(482,150)
Net Position, beginning of year, as restated	<u>11,568,124</u>	<u>10,572,606</u>
Net Position, end of year	<u>\$ 12,036,190</u>	<u>10,090,456</u>

See accompanying independent auditor's report

Vinton Municipal Electric Utility  
Budget to GAAP Reconciliation  
Year Ended June 30, 2016

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Operating Revenues:			
Charges for services	\$ 4,144,889	120,425	4,265,314
Sales and services to City of Vinton	156,442	-	156,442
Misc. operating revenue	95,646	3,577	99,223
Total operating revenue	<u>4,396,977</u>	<u>124,002</u>	<u>4,520,979</u>
Operating expenses:			
Generation	2,806,666	(99,389)	2,707,277
Distribution	607,812	(119,720)	487,871
Customer account	27,195	-	27,195
Administration and general	521,864	(26,295)	495,569
Benefits to community and city	92,406	-	92,406
Depreciation	-	288,267	288,267
Total operating expenses	<u>4,055,943</u>	<u>142,252</u>	<u>4,098,585</u>
Non-operating revenues(expense):			
Interest income	17,206	-	17,206
Contingency	28,466	-	28,466
Total non-operating revenue (expense)	<u>45,672</u>	<u>-</u>	<u>45,672</u>
Change in net position	386,706	(18,250)	468,066
Net Position, beginning of year	<u>11,590,480</u>	<u>(22,356)</u>	<u>11,568,124</u>
Net Positon, end of year	<u><u>\$ 11,977,186</u></u>	<u><u>(40,606)</u></u>	<u><u>12,036,190</u></u>

See accompanying independent auditor's report



## Vinton Municipal Electric Utility

### Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2016

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the Proprietary Fund.

In accordance with the Code of Iowa, the Utility Board annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund or fund type. The Utility's disbursements are budgeted in the business-type function. The Utility did not amend the budget during the year.

During the year ended June 30, 2016 the Utility's disbursements did not exceed the budgeted amounts

# Vinton Municipal Electric Utility

## Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
As of June 30, 2016  
( in thousands)

### Other Information

	2016	2015
Net Pension Liability:		
City (includes Utility)	0.0234830%	0.02161300%
Estimated Utility portion	0.0059999%	0.00552212%
Proportionate share of the net pension liability:		
City (includes Utility)	1,544	1,108
Estimated Utility portion	394	283
Covered payroll:		
City (includes Utility)	2,201	2,063
Estimated Utility portion	562	527
Proportionate share of the net pension liability as a percentage of its covered employee payroll:		
City (includes Utility)	70.15%	53.71%
Estimated Utility portion	17.92%	13.72%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

### NOTES:

The above information is for the City which includes the Utility.  
The Utility's estimated share was calculated at 25.55% for 2016  
and 25% for 2015, based on their payroll subject to IPERS .

GASB Statement No. 68 requires ten years of information  
to be presented in this table. However, until a full  
10-year trend is compiled, the City will present information  
for those years for which information is available.

See accompanying independent auditor's report

Vinton Municipal Electric Utility

Schedule of Utility Contributions  
Iowa Public Employee's Retirement System  
Last Ten Years  
(In Thousands)

Other Information

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutorily required contribution	\$ 196	189	175	170	165	145	133	115	115	107
Contributions in relation to the statutorily required contribution	<u>(196)</u>	<u>(189)</u>	<u>(175)</u>	<u>(170)</u>	<u>(165)</u>	<u>(145)</u>	<u>(133)</u>	<u>(115)</u>	<u>(115)</u>	<u>(107)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered employee payroll	<u>\$ 2,145</u>	<u>2,063</u>	<u>1,960</u>	<u>1,961</u>	<u>2,045</u>	<u>2,086</u>	<u>2,000</u>	<u>1,811</u>	<u>1,901</u>	<u>1,861</u>
Contributions as a percentage of covered-employee payroll	<u>9.14%</u>	<u>9.16%</u>	<u>8.93%</u>	<u>8.67%</u>	<u>8.07%</u>	<u>6.95%</u>	<u>6.65%</u>	<u>6.35%</u>	<u>6.05%</u>	<u>5.75%</u>

NOTE:

The above information is for the City of Vinton and includes the Vinton Municipal Electric Utility. The Utility's portion for 2016 is estimated at 25.55% and the portion for 2015 is estimated at 25%. Percentages for other years were not available.

See accompanying independent auditor's report



# Vinton Municipal Electric Utility

## Notes to Other Information – Pension Liability

June 30, 2016

### Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

### Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration

## Vinton Municipal Electric Utility

### Notes to Other Information – Pension Liability

June 30, 2016

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

## **Supplementary Information**



Vinton Municipal Electric Utility  
Schedule of Operating Expenses  
Year Ended June 30, 2016

	<u>2016</u>
Generation:	
Purchased power	\$2,287,801
Fuel oil	33,039
Natural gas	47,110
Payroll taxes and employee benefits	83,658
Production labor	186,881
Lubricants and chemicals	7,659
Maintenance	52,498
Miscellaneous	8,631
Total Generation	<u>2,707,277</u>
Distribution:	
Distribution labor	230,421
Payroll taxes and employee benefits	105,086
Maintenance:	
Structure and equipment	1,592
Overhead lines	38,195
Line transformers	10,433
Street Lighting	8,737
Plant	5,208
Meters	76,497
Supplies	8,304
Miscellaneous	3,398
Total Distribution	<u>487,871</u>
Customer Accounts:	
NSF check/collection expense	6,408
Meter reading	20,787
Total Customer Accounts	<u>27,195</u>
Administration and General:	
Office salaries	205,007
Payroll taxes and employee benefits	65,137
Property insurance	89,016
Outside services	14,146
Office supplies/equipment	21,261
Regulatory assessment	19,405
Membership dues	17,372
Transportation	10,704
Energy efficiency programs	33,982
Miscellaneous	19,539
Total Administration and General	<u>495,569</u>
Benefits to Community and City:	
Payments in-lieu of taxes	84,000
Community benefits	8,406
Total Benefits to Community and City	<u>92,406</u>
Depreciation and amortization	<u>288,267</u>
Total Operating Expenses	<u><u>\$4,006,179</u></u>

See accompanying independent auditor's report.

# RFSW Ridihalgh Fuelling Snitker Weber & Co.

C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, CPA  
Gene L. Fuelling, CPA  
Donald A. Snitker, CPA  
Donald A. Weber, CPA

Jeremy P. Lockard, CPA  
Alan W. Flick, CPA  
Brent A. Waters, CPA

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees  
Vinton Municipal Electric utility  
Vinton, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities of Vinton Municipal Electric Utility, Vinton, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our report thereon dated December 6, 2016.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Vinton Municipal Electric Utility's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vinton Municipal Electric Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Vinton Municipal Electric Utility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Vinton Municipal Electric



Utility's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-16 and II-B-16 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs items II-C-16 to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vinton Municipal Electric Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Governmental Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### Vinton Municipal Electric Utility's Responses to Findings

Vinton Municipal Electric Utility's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Vinton Municipal Electric Utility's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Vinton Municipal Electric Utility during the course of our audit. Should you have any questions concerning the above matters, we shall be pleased to discuss them with you at your convenience.

  
RIDIHALGH, FUELING, SNITZER, WEBER & CO., P.C., C.P.A.'S

December 6, 2016



Vinton Municipal Electric Utility  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

## **Part II: Findings Related to the Financial Statements:**

### **INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

### **INTERNAL CONTROL DEFICIENCIES:**

II-A-16 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent any individual employee from handling duties which are incompatible. These incompatible duties can be summarized into four categories: Custody, Authorization, Record Keeping and Review. Ideally, separate individuals have control over each of the duties listed within the following areas for the Utility:

Cash-handling, reconciling, and recording.

Receipts-opening mail, collecting, depositing, journalizing, reconciling and posting.

Disbursements-purchasing, invoice processing, check writing, mailing, reconciling and recording.

Payroll-recordkeeping, preparation and distribution.

Financial reporting-preparation and reconciling.

Journal entries-preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The Board of Trustees is aware of the condition. We will review procedures and make changes where reasonable.

Conclusion – Response acknowledged.

II-B-16 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The Utility does not have an internal control system designed to provide for the preparation of the financial statements, including accompanying footnotes, as required by generally accepted accounting principles. The guidance in Statement of Auditing

Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements as well as prepare certain material adjusting entries to bring the Utility's cash basis records to accrual amounts. The outsourcing of these services is not unusual in an entity of this size.

Recommendation – Management should carefully review the financial statements including note disclosures and understand their relationship to the underlying data. All proposed adjustments and the reasoning behind them should be understood and approved. However, it is the responsibility of the Trustees and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – The Utility relies on the auditor to propose the adjustments necessary to prepare the financial statements and the related note disclosures in accordance with the applicable financial frameworks. The Utility reviews such financial statements. The Utility will look at the possibility of having the year end accruals done before the audit.

Conclusion – Response acknowledged.

Conclusion – Response acknowledged.

II-C-16 Reconciliation of Utility Billings, Collections and Delinquent Accounts–Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Recommendation–A listing of delinquent accounts is kept via the aging report, but no reconciliation of billings, collections including the delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The general manager or the trustees should review the reconciliations.

Response–We will look at setting up a procedure to accomplish this reconciliation.

Conclusion–Response accepted.



**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-16 Certified Budget – Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted in the business type activities functions.
- III-B-16 Questionable Disbursements – We noted no specific individual questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- III-C-16 Travel Expense – No disbursements of Utility’s money for travel expenses of spouses of Utility officials or employees were noted.
- III-D-16 Business Transactions – There were no material business transactions between the Utility and Utility officials or employees.
- III-E-16 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- III-F-16 Board of Trustees Minutes – We noted no transactions requiring Board approval which have not been approved by the Board.
- III-G-16 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa or the Utility’s investment policy were noted.